

## OUTTURN AGAINST THE 2017-18 INTERNAL AUDIT PLAN AND CONTROLS ASSURANCE STATEMENT

### 1. Purpose of Report

The internal audit team operates to a plan agreed at the beginning of each financial year. The 2017-18 plan was approved by the Audit & Risk Management Committee at its meeting on 23 June 2017. This report provides information about the progress made by internal audit against the plan at the year-end and the conclusions arising from the work done.

### 2. Recommendations

Members are asked to:

2.1 note and comment on the progress made on the 2017-18 internal audit plan as detailed in **Appendix 1**; and

2.2 note internal audit's Controls Assurance Statement for 2017-18 (**Appendix 2**) which gives a positive assurance on the Council's internal control arrangements for the year.

### 3. Considerations

#### Issues in Completing the Internal Audit Plan

3.1 The 2017-18 annual internal audit plan was based on a direct time budget of 655 days. This was allocated across four programme areas of: main financial systems, departmental financial systems, risk management support and grants work. There was also a small contingency for unplanned work.

3.2 The priority for internal audit is main financial systems work. However, we were unable to undertake one of the five planned audits, in respect of Council Tax. A member of the team was seconded on a temporary basis for six months to support the DGOne Inquiry and this had an impact on the number of days available to complete the plan. The Council Tax audit will be rolled forward to the 2018-19 plan and will be undertaken as a priority alongside the other main financial systems work due to be completed that year.

3.3 Also because of the reduction in available audit days three other audits were not completed from the plan, two departmental systems audits and one specific risk audit. The requirement for this work has been reviewed in discussion with operational management and two of these audits, in respect of home care payments (real time monitoring) and the home energy efficiency fund's operation, are no longer required. The third audit, in respect of the use of purchase cards by schools, has been retained and is included in the 2018-19 internal audit plan being recommended to Members (elsewhere on the agenda).

3.4 There are two pieces of work from the 2017-18 plan that are still in progress, the income management system and commercial waste charges. These are at a late stage and will be completed without calling on the 2018-19 plan resource. The audit reports are expected to be available for the June meeting of the Committee. All the remaining work in the plan has now been concluded. The actual time spent on each programme area during the year is listed in **Appendix 1** along with the planned time and variance.

3.3 Overall the team delivered 544 direct audit days for the year against a plan figure of 655 (83% efficiency of adherence to plan days). This is the first of two statistical performance measures reported by internal audit. Later in the calendar year, a further performance indicator relating to the cost of internal audit will be compiled. This will be reported when the accounting figures are available.

#### **Controls Assurance Statement for 2017-18**

3.4 The work of internal audit is concerned with the following business objectives:

- Effective and efficient operations
- Reliable reporting arrangements
- Compliance with laws and policies

3.5 Internal audit provides an annual controls assurance statement which is a formal document stating whether or not the control framework established and operated by management provides reasonable assurance these business objectives are being met. This is one of the key assurances supporting the Governance Statement, which will be published with the Council's accounts.

3.6 No significant matters arose through internal audit's testing programme and consideration of control issues. An appropriate level of control is considered to have been in place and the overall conclusion is a positive assurance for 2017-18. A formal statement to this effect is provided in **Appendix 2**.

### **5. Future Developments**

4.1 The internal audit team is currently undertaking a self-assessment against the updated Public Sector Internal Audit Standards (2017 edition). The ratings will be evidenced and in due course, the evaluation will be validated by an independent external party. The exercise will lead to an improvement plan being developed for internal audit and this will be reported to the Committee later in the calendar year.

### **5. Governance Assurance**

5.1 The remit of the Audit, Risk and Scrutiny Committee has been set by the Council. In adopting the recommendation to note and comment on the progress made and to note the controls assurance statement, the Council will be acting within its legal powers.

5.2 Reviewing the progress against the annual plan contributes to sound corporate governance arrangements.

5.3 No other officers were consulted on this report as it addresses issues within the responsibilities of the report's author.

### **6. Impact Assessment**

As this report does not propose a change in policy/strategy/plan/project, it is not necessary to complete an impact assessment.

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**Author(s)**

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**Approved by**

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**Appendices - 2**

Appendix 1 - Internal Audit Plan 2017-18 – Performance at Twelve Months

Appendix 2 – Controls Assurance Statement 2017-18

**Background Papers**

Previous reports to Audit and Risk Management Committee at

<http://egenda.dumgal.gov.uk/aksdumgal/users/public/admin/kab71.pl>

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# APPENDIX 1

INTERNAL AUDIT PLAN 2017-18				
PERFORMANCE AT TWELVE MONTHS				
	Planned	Actual		
	Days	Days	Variance	Notes
Task				
1. Non-Audit Time				
Public Holidays	28.0	28.0	0.0	
Annual Leave	152.0	147.5	-4.5	
Other Absence	0.0	15.5	15.5	Compassionate leave, elections
Sick & Medical Absence	23.0	18.5	-4.5	
Secondment	0.0	132.0	132.0	DGOne Inquiry
Total Non-Audit Time	203.0	341.5	-138.5	
2. Indirect Time				
Management, Admin & Records Management	315.0	303.5	-11.5	
Training	23.0	7.0	-16.0	
Total Indirect Time	338.0	310.5	-27.5	
3. Direct Time				
Main Financial Systems:	250.0	201.5	-48.5	
Housing Benefit & Council Tax Reduction				Report finalised
Non-Domestic Rates				Report finalised
Council Tax				Not done - c/f to 2018-19 plan
Creditors - Total Repairs				Report finalised
Income Management				In progress
2016-17 Follow-ups				Report finalised
Departmental Financial Systems:	180.0	125.5	-54.5	
Home Care Payments (real-time monitoring)				Dropped
Payment Cards for Personal Budgets				Report finalised
Use of Purchase Cards by Schools				Not done - c/f to 2018-19 plan
Shop Front Initiative				Report finalised
Commercial Waste Charges				In progress
Risk Management				
Risk Management Support (Corporate & Service)	40.0	40.0	0.0	Support and training
Specific key risks and corporate issues:	140.0	121.0	-19.0	
Project and Programme Management Standards				Report finalised
Capital Spend to Save				Report finalised
Attainment Gap Funding				Report finalised
Home Energy Efficiency Fund				Dropped
Subtotal Risk Management Work	180.0	161.0	-19.0	
Grants Programme:				
EU Grant Certificates - LEADER	25.0	24.0	-1.0	Report finalised
Unplanned Audit Work	20.0			
Support on a community council issue		12.0	-	
Support on funded body		4.0	-	
Support on waste tonnages		6.0	-	
Support to SCOTS		10.0	-	
Subtotal Unplanned Audit Work	20.0	32.0	12.0	
Total Direct Time	655.0	544.0	-111.0	
ALL TIME TOTAL	1196.0	1196.0	0.0	

**To Members of the Audit, Risk and Scrutiny Committee of Dumfries & Galloway Council and the Council's S95 Officer**

This is internal audit's assurance statement on the adequacy and effectiveness of the Council's internal control system for the year ended 31 March 2018.

**Respective responsibilities of management and internal auditors in relation to internal control**

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of internal audit to assess the robustness of the internal control system and report the conclusion to the Audit, Risk and Scrutiny Committee annually.

**Sound internal controls**

The main objectives of the Council's internal control systems are:

- To ensure adherence to management policies and directives, in order to achieve the Council's objectives;
- To safeguard assets;
- To ensure the reliability, relevance and integrity of information, securing as far as possible the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

Maintenance and development of the system of internal financial control is undertaken by managers within the Council. The system is based on a framework of financial regulations and codes, a scheme of delegation and accountability, management supervision, administrative procedures (including separation of duties) and regular management information. In particular, the system includes:-

- Comprehensive budgeting systems;
- Preparation of regular financial reports which indicate actual expenditure against the forecasts;
- Regular reviews of periodic and annual financial reports indicating financial performance against forecasts;
- Setting targets to measure financial and other performance;
- Clearly defined capital expenditure guidelines; and
- Formal project management disciplines.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or there is no risk of material errors, losses, fraud, or breaches of laws or regulations. The Council must therefore continually seek to improve the effectiveness of its systems of internal control.

**The work of internal audit**

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Local Authority (Accounts) Regulations 2014 require the Council to: 'operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing.'

The Council's Internal Audit section operates in accordance with the Audit Charter approved by the Audit and Risk Management Committee in December 2013, which is based on the principles and standards outlined in the public sector internal audit standards (PSIAS). Internal Audit operated generally in compliance with these standards and there were no significant departures from them during 2017-18.

The Internal Audit section undertakes an annual programme of work based on a risk assessment process, which is revised on an ongoing basis to reflect evolving risks and changes within the Council. The Audit, Risk and Scrutiny Committee approved the internal audit plan for 2017-18 in June 2017.

Any significant matters arising from internal audit work, including non-compliance with important audit recommendations, are reported to the Head of Finance and Procurement as the Council officer designated under S95 of the Local Government (Scotland) Act 1973. Internal audit reports identifying any system weaknesses, non-compliance with established controls and improvement opportunities are issued to applicable Directors and operational management. They are also made available to elected Members.

It is management's responsibility to ensure that proper consideration is given to internal audit reports and that appropriate action is taken on audit recommendations. Internal Audit is required to identify whether action has been taken on its recommendations and that management has understood and assumed the risk of not taking action. Progress on implementing the agreed actions points in internal audit reports is reported to the Audit, Risk and Scrutiny Committee who can 'call in' any service where progress is a concern. The Council's external auditors also arrange to follow up the actions they have agreed with management.

### **Fraud Reporting**

Internal Audit's role includes supporting management in countering fraud through advice and reporting on control weaknesses found during the course of audit work. Internal Audit also co-ordinates the formal reporting of fraud involving sums above £5,000 to the Council's external auditors for onward reporting to Audit Scotland. Council managers are required to notify Internal Audit of all such cases; no frauds were reported in 2017-18.

### **Basis of Conclusion**

Internal audit's evaluation of the control environment that operated during 2017-18 is informed by a number of sources:

- The work undertaken by internal audit during the year to 31 March 2018 and previous years;
- The assessment of risk completed during the preparation of the audit plan;
- Reports issued by the Council's current external auditors, Grant Thornton;
- Knowledge of the Council's governance, risk management and performance monitoring arrangements;
- Assurances provided to auditors by management during the course of audit work.

The level of staffing resources available to undertake internal audit work was less than planned during 2017-18 due to a temporary secondment. A small number of audits in the plan were not completed as intended, the most important of which was the main financial systems work on Council Tax. This audit will have been rolled forward into the 2018-19 plan and will be undertaken as a priority. After discussions with service management, the delay in the work is not considered to have an adverse impact on the assurance available for 2017-18.

There were no restrictions on internal audit's ability to access the systems, people and records required to complete its work. There were therefore no other impairments on internal audit during the year.

The internal audit programme for 2017-18 addressed the adequacy and effectiveness of key controls in four of the Council's main financial systems. Follow-up work was undertaken for six other main financial systems based on the reports issued in the previous year. Internal audit work also addressed certain other business processes in accordance with the audit plan. No specific computer audits were undertaken but the main financial systems work included reviews of security structures, access controls and computer backup/business continuity arrangements.

The Internal Audit section is also responsible for providing support on the development and maintenance of risk management in the Council. The scope of activity during the year included support on Service risk registers, advice on risks involved in projects and co-ordination of corporate risk register updates.

### **Limitation of Scope**

In accordance with professional practice, internal audit work is planned and executed on the basis that conclusions can be reached from a sample of transactions. This leaves a possibility that there may be undetected control issues in unexamined transactions.

The conclusion in respect of the main financial systems, which were not subject to audit in 2017-18, is dependant on full information having been disclosed to internal audit by management.

The controls assurance statement has been prepared in March 2018 and there remains a risk that a material control weakness could emerge during the preparation of the accounting statements for 2017-18.

The above risks are however considered small.

### **Conclusion**

It is the Internal Audit Manager's conclusion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2018.

J K Geraghty  
29 March 2018